

CITY OF MUSKEGON

ECONOMIC DEVELOPMENT REVOLVING FUND
PROGRAM POLICIES AND GUIDELINES

PURPOSE

The purpose of the City of Muskegon Revolving Loan Fund is to promote economic development in the City of Muskegon through the provision of capital for new and expanding locally-sited businesses, with a special emphasis on minority and female entrepreneurship. The Revolving Loan Fund is intended to supplement but in no way replace conventional financing sources.

POLICY

Financing will be made available for sound business purposes where there is a reasonable expectation of repayment, but where conventional lenders are unwilling or unable either to accept the total risk or to make financing available under terms and conditions which the applicant can afford. Priority under the program will be assigned to ventures with conventional participation and minimal use of public funds either for the project itself or for supporting public improvements. Principal and interest repayments on loans from the Fund will revert to the Fund for support of similar activities.

In extraordinary circumstances, the Fund may be used to finance public improvements necessary to support private developments, where those improvements are critical to the success of the project, and where the overall development will result in creation of permanent, full-time jobs. The Fund, however, is intended to be permanent and self-sustaining, and no disbursements should be made without the expectation of full and timely repayment.

I. ELIGIBLE ACTIVITIES

Loans from the Revolving Loan Fund can be used to finance acquisition and development, including land acquisitions as well as rehabilitation, modernization, and conversion of existing facilities and purchase of machinery and equipment. Working capital loans will only be made if essential to the creation or retention of jobs. Project must conform to local zoning and/or building codes.

Loans may be used to finance industrial, commercial and multi-family residential development which is in conformance with the properties and restrictions established for this program.

A. Industrial Development

1. Job Creation or Retention – It shall be a goal to establish or retain one permanent job for Muskegon residents for each \$15,000 in financing provided by the Fund. Projects involving the hiring of City residents or long-term unemployed will be more favorably considered.
2. Project Location – Preference will be given to industrial projects which promote sound land use planning in one or more of the following ways: (i) location of a new industry in an industrial park; (ii) relocation of an industry to achieve conformance with an official land use plan; (iii) reuse, renovation, or modernization of facilities currently located in areas appropriately zoned.
3. Type of Industry – Priority will be assigned to growth industries with little or no negative impact on the environment.

B. Commercial Development

1. Job Creation or Retention – It shall be a goal to establish or retain one permanent job for Muskegon residents for each \$15,000 in financing provided by the Fund. Projects involving the hiring of City residents or long-term unemployed will be for favorably considered.
2. Project Location – Preference will be given to financing for commercial development projects to be located either in the downtown, or on the lakefront and in conformance with official land use plans. Also, preference will be given to projects involving the renovation or preservation of historic or architecturally significant structures.
3. Type of Business – Priority will be assigned to commercial development which contributes to a diversification of the area economy, with little or no negative impact on the environment.

C. Residential Development

Preference will be given to financing for market rate commercial housing to be located in the downtown. Also preferences will be given to projects involving the renovation or preservation of historic or architecturally significant structures.

II. LOAN POLICIES

- A. Assistance from the Revolving Fund may be made available in the form of loans or loan guarantees, under terms established by the City

Commission with the advice of the Loan Fund Advisory Committee. All loans should be secured by assets having a value equal to or exceeding the loan amount. No loan or loan guarantee shall be extended if funds are otherwise available from private lenders or other federal agencies on terms which will permit the accomplishment of the project.

- B. It is the City's intent that the RLF loan portfolio be well diversified. Accordingly no single loan or series of loans to a single recipient will be allowed which exceeds twenty percent (20%) of the net collectible assets of the Revolving Loan Fund, **with the exception of a significant public – private partnership project (in which case the amount may exceed 20%).**
- C. The applicant shall provide at least twenty percent (20%) equity in the total business or project. It is the intent of this program that loans be made to supplement (but not replace) private financing where such private financing alone is insufficient to make otherwise worthwhile projects feasible. Accordingly, no loan will be made unless private financing equal to at least fifty percent (50%) of the total project cost has been secured (or can be confirmed contingent upon RLF loan approval). No more than thirty percent (30%) of total project costs should be provided by the Revolving Fund for a new business, or forty percent (40%) of total assets for expansion of an existing business. "Total Assets" as used here includes those assets anticipated to be purchased or constructed with proceeds of the requested loan. Interest rates will normally be set at one-half of the prime rate (as quoted in the daily Wall Street Journal) plus two percent (2%). The term of a loan shall not exceed five (5) years, or three-fourths of the estimated economic life of the structure, whichever is less. A loan to a tenant may not extend beyond the unexpired term of the lease, excluding any options to extend the term of the lease that have not been exercised prior to loan approval.
- D. Applicants will be required to submit a business plan, financial statements, including balance sheets, income statements, and supporting statements, for the applicant's three (3) most recent fiscal years. A credit check will be conducted on all applicants and may be used in determining the applicant's credit worthiness. In addition, the City will require submission of projected pro forma balance sheets and income statements, cash flow, and supporting statements of the applicant on a quarterly basis. Applicants may also be required to submit additional information as determined by the City or the Advisory Committee.
- E. Loan conditions will include the following, as determined by the City:
 - 1. Fire, hazard, and normal business insurance on all assets for the term of the loan;
 - 2. Subordination of the applicant's shareholder debt and all debts of shareholders to the loan;
 - 3. Restrictions on salaries and dividends during the term of the loan;

4. Personal guarantees (including spouses and security in other assets);
 5. Such other conditions as the City determines are necessary to assure the safety and soundness of the loan.
 6. Favorable credit check;
 7. Adherence to the City of Muskegon's Affirmative Action policies and goals, including submission of an up-to-date affirmative action plan; and
 8. Current and projected employment profile detailing place of residence, racial and gender characteristics, and employee classifications.
- F. Loans will be approved only on the condition that the applicant not relocate facilities or employment outside of the City of Muskegon during the term of the loan. To the extent possible, loans will be approved only if it can be demonstrated that the collateral exceeds the loan amount.
- G. Principal and interest payments will commence on the date(s) set by the City. The applicant must submit quarterly financial statements in conformance with Generally Accepted Accounting Principles (GAAP).

III. ADDITIONAL LOANS

The RLF is intended to be a one time financing source for business start-ups and expansions. Requests for additional financing from the RLF will only be considered under extraordinary circumstances. Such requests, in addition to meeting all of the aforementioned loan criteria, will be considered only if (a) at least fifty percent (50%) of the original loan balance has been repaid; and (b) all payments required under the original loan repayment schedule were made in a timely fashion.

IV. LOAN FUND ADMINISTRATION

Prior to making any loan commitment from the Revolving Fund, the City will first obtain the advice of the Loan Fund Advisory Committee (LFAC), a committee of five members appointed by the Mayor and Commission approval. Membership on the committee will be as follows:


- A. Two representatives from the City Commission;
- B. One representative from area financial institutions;
- C. One public sector representative; and
- D. The Finance Director or Designee.

V. EXTRAORDINARY CIRCUMSTANCES

- A. It is the intent of the City Commission that all loans conform to the policies and guidelines outlined herein. Accordingly, each loan application submitted to the City Commission for approval must include a summary "scoresheet" indicating whether or not the proposed loan adheres to each of the specific policies and guidelines in this document.
- B. Notwithstanding the above, it is recognized that the assets of the Revolving Loan Fund may be used for projects or purposes not contemplated here or for loans that do not meet all of the policies and guidelines outlined. In such cases, approval by a two-thirds majority of the City Commission will be necessary. Commission approval shall be required for the use of funds for public improvements, purchase of land or equipment by the City, or other public purposes.

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Adopted June 11, 2002.



Gail A. Kunding
City Clerk